RESPONSE
to the
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of the
AUDITOR GENERAL

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RESPONSE TO THE 1986 REPORT OF THE AUDITOR GENERAL

TABLE OF CONTENTS

Page

A. MINISTER'S STATEMENT 1

B. MANAGEMENT OVERVIEW 3

C. FINANCIAL STATEMENTS
- 1. Accrued Liabilities 5
- 2. Fiscal Agency Loans Fund Disclosure 5
- 3. Sinking Funds 5
- 4. Trust Funds Classification 6
- 5. Status of the Workers' Compensation Board Superannuation Fund 6

D. GOVERNMENT ACCOUNTING POLICIES
- 1. Capital Financing Authorities 7
- 2. Recoveries 7
- 3. Lease Payment Accounting Policy 7

E. FINANCIAL AND LEGISLATIVE CONTROLS
- 1. Statutory Appropriations 8
- 2. Recoveries — Authority to Spend Estimated Amounts 8
- 3. Borrowing Authorization 8
- 4. Contingencies Vote 9
- 5. Senior Financial Officer Bank Accounts 9
- 6. Banking Practices for Trust Funds 9
- 7. Public Trustee, Ministry of Attorney General 10
- 8. Land Title Search Fees, Ministry of Attorney General 11
- 9. Civil Legal Aid Cost Sharing Claims 11
- 10. Accounts Receivable and Debt Collection, Ministry of Forests 11
- 11. Treasury Board Approvals, Ministry of Health 12
- 12. Restructure Grants 12
- 13. Administration of the B.C. Games 12
- 14. Telephone Equipment Leasing Overcharges 12

F. STATUS OF FINDINGS IN PREVIOUS REPORTS OF THE AUDITOR GENERAL
- 1. Financial Statements
  - 1.1 Financial Statement Presentation 13
- 2. Government Accounting Policies
  - 2.1 Dispositions, Long-Term Bond Investments 13
  - 2.2 Recoveries 13
- 3. Financial Control
  - 3.1 Monitoring Reallocation of Funds 13
  - 3.2 Administration of Trust Assets 13
  - 3.3 Provincial Secretary and Government Services 14

G. COMPREHENSIVE AND SPECIAL AUDITS
- 1. Passenger Vehicle Travel 15
- 2. Ministry of Lands, Parks and Housing 15
- 3. Professional Service Contract Review 17

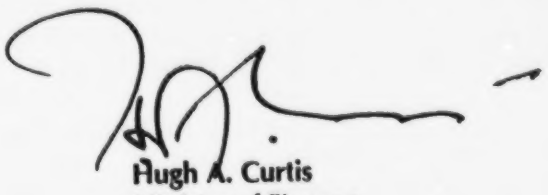
H. PUBLIC BODIES 19

I. PROGRESS INDEX 20

Statement by the Honourable Hugh A. Curtis on the 1986 Report of the Auditor General

It is my pleasure to present the government's response to the *1986 Report of the Auditor General*. As in previous reports, the Auditor General has called attention to important areas of financial control, and I welcome her constructive criticism of the government's system of financial management. This document describes action that is being taken to address those recommendations.

The continuing progress in financial administration in government is the result of conscientious efforts by the financial managers of government who are committed to improving its financial systems. Major initiatives to enhance financial controls have been implemented in recent years including new legislation, new policies and new financial systems. In this atmosphere of change, the contribution of the Auditor General is especially valuable. This Response to the Auditor General's Report represents one more step along the path to excellence in financial management and control within the Government of British Columbia.



Hugh A. Curtis
Minister of Finance

MANAGEMENT OVERVIEW

The *1986 Report of the Auditor General* is the ninth such report on the government's management of its financial resources and systems of financial reporting and control. Since the first report in 1978, the Province of British Columbia has acted to modernize and effect efficient management of the financial function. Modern legislation has been enacted, policies and procedures have been developed, and the decentralization of accounting and reporting functions in ministries is well established.

As a reflection of the government's ongoing commitment to sound financial management and control practices, major achievements in 1985 and plans for 1986 include the areas indicated below.

- The areas of Vehicle Management and Professional Service Contracts are receiving priority by the provincial government. In August, 1985, Government Management Policy was revised to address the issue of service contracts, and Treasury Board approval requirements are clearly stated for new, existing or renewed contracts. The Vehicle Management Advisory Committee is developing replacement strategies for the government vehicle fleet, and is reviewing policy to ensure continuing effective management of government vehicles.
- The Office of the Comptroller General gives priority to assisting ministries in strengthening their financial management and control systems by placing an increasing emphasis on implementation of audit recommendations and financial systems development in ministries.
- Last year's introduction of general ledger software into the Central Accounting System has laid the foundation for a more flexible, responsive system capable of providing excellent financial control and financial management information.
- The standards described for financial systems development in Financial Administration Policy will be reviewed during 1986, and revised as necessary in light of technological advances in recent years. A framework for review and evaluation of financial systems to ensure consistency across government is also under consideration as part of this process.
- The Ministry of Finance is continuing to work toward development of a comprehensive recoveries policy which will accommodate the management objectives implicit in the existence of recoveries to votes, while taking into account the Auditor General's comments respecting the accounting treatment of revenue sources.
- Training of government staff in financial administration continues to be well supported, and the training program is considered to be one of the best in Canada. 275 managers and financial officers attended the Financial Management and Control Course, and over 1000 financial workshop training days were devoted to meeting the specific needs of individual ministries during 1985.
- One of the major impacts of the *Financial Administration Act* was that ministries became responsible for financial management. A new classification system for Financial Officers has been introduced which more clearly defines responsibilities and positions of financial personnel in government, and this system now provides an attractive path for employees seeking to pursue a financial career in government.

The following Response to the 1986 Report of the Auditor General outlines the government's progress in responding to problems identified by the Auditor General in her most recent annual report to the Legislative Assembly. Cross-references to the 1986 Report of the Auditor General are made in the right hand margin of this volume.

Section, Subsection	Auditor General's Reference (1986 Report)

C. FINANCIAL STATEMENTS

C.1 Accrued Liabilities

P. 8
1.9–1.13

The Ministry of Health did not accrue the outstanding liability to the Ministry of $2.3 million representing outstanding tenant improvements for Pearson Hospital payable to the B.C. Buildings Corporation, because the final transfer of assets, including tenant improvements, had not taken place at March 31, 1985. It would, therefore, have been premature, in the Comptroller General's opinion, to record this liability in the 1984/85 fiscal year.

C.2 Fiscal Agency Loans Fund Disclosure

P. 9
1.14–1.18

The Schedule of Special Fund Transactions and Balances reports revenues and expenditures of the Special Funds. The amounts that the Auditor General wishes to have included are not revenue or expenditure, but financing transactions, and, accordingly it is the Comptroller General's opinion that they should not be included in this Schedule.

The totals of revenue and expenditure are carried forward into the Combined Statement of Operating Results, the Schedule of Combined General Fund and Special Funds Revenue by Source and the Schedule of Combined General Fund and Special Funds Expenditure by Function. It is considered that the reader of statements is best served by current reporting practices.

If the recommendation were followed, financing transactions associated with fiscal agency loans would be included in the Schedule of Special Funds Transactions and Balances. These financing transaction amounts would then have to be eliminated if the balances to be carried to other schedules are to be clearly identified. Additionally, full disclosure of the financing transaction amounts is made in the Combined Statement of Changes in Cash and Temporary Investments, and gross debt issues are reported in the Schedule of Public Debt.

For consistency, the recommendation should apply to financing transactions in the other Funds in the schedule, however this would further complicate carrying forward correct revenue and expenditure amounts to the other statements.

C.3 Sinking Funds

P. 12
1.23–1.30

Legal counsel has advised that statutory authority currently exists for the establishment of sinking funds under section 53 of the *Financial Administration Act*. Government does not have power of appropriation over the funds except to the limited extent provided under section 47 of the *Financial Administration Act*, which restricts any power of appropriation to surplus. However, given the concerns expressed and the need to avoid ambiguity in this regard, legislative amendments are being considered.

When monies are set aside under the *Financial Administration Act* for sinking funds, those monies are considered to be trusts. The Minister of Finance, by implication, is therefore the trustee of the funds. When the Auditor General states that "it is not possible to hold assets in trust for oneself", the Minister of Finance agrees. However, under section 1 of the *Financial Administration Act*, sinking funds are considered statutory trusts, and are governed by the provision of the statute creating the trust. Therefore, the requirement under section 8 (2) (b) of the *Financial Administration Act* which stipulates that the financial statements of government are to contain statements of trust funds means that Trust Funds Financial Statements must, by statute, include any sinking funds maintained by the government.

C FINANCIAL STATEMENTS

Section, Subsection	Auditor General's Reference (1986 Report)

C.4 Trust Funds Classification

P. 14
1.31–1.36

The trust funds referred to by the Auditor General as "actively managed by provincial government employees" are in fact custodial deposits in the opinion of the Ministry. The classification of trust accounts into "Actively Managed" and "Custodial Deposits" is based on the degree of management exercised by the Minister of Finance over investment of funds. In the cases of the funds mentioned in the report, the Minister of Finance merely accepts deposits, honours requests for payments and pays interest on the balances, in contrast to his responsibilities under actively managed funds. The classification of trusts is therefore considered appropriate.

C.5 Status of the WCB Superannuation Fund

P. 15
1.37–1.40

Research has been undertaken to evaluate the proposed exclusion of the W.C.B. Superannuation Fund in the Trust Funds Under Administration Statement and a decision is expected before the close of fiscal 1986/87. In addition, some other pension accounts are also being considered for exclusion.

Section, Subsection	Auditor General's Reference (1986 Report)

D. GOVERNMENT ACCOUNTING POLICIES

D.1 Capital Financing Authorities

P. 17
2.4–2.6

These financing authorities are included in the Consolidated Financial Statements.

D.2 Recoveries

P. 18
2.7–2.10

Last year's Response indicated that development and implementation of changes would commence with the 1986/87 Estimates. This has occurred with few recoveries being approved for 1986/87 and several being eliminated.

The issue of accounting for recoveries is a complex one. Achievement of program objectives as well as incentives for government managers to maximize revenue collection must be considered together with an appropriate accounting treatment for recoveries. One solution would be to eliminate all recoveries and move to gross reporting. This, however, would not accommodate the incentives to good management implicit in the existence of recoveries to votes. The federal government moved to gross reporting, but is now reintroducing recoveries to create the management incentive to efficiently administer revenue.

The development of a comprehensive recoveries policy is viewed as a project that will take more than one year to implement, if the issues are to be effectively addressed for the long term. This development is underway; each recovery will be examined during the planning and development of each year's budget to determine management principles associated with the revenue source, as well as addressing the question of "to the Consolidated Revenue Fund?" or "to the Vote?".

D.3 Lease Payment Accounting Policy

P. 19
2.11–2.15

It is agreed that accounting policy with respect to leases should be reviewed as to its appropriateness as it relates to special purpose buildings under lease from the British Columbia Buildings Corporation.

Section, Subsection	Auditor General's Reference (1986 Report)

E. FINANCIAL AND LEGISLATIVE CONTROLS

E.1 Statutory Appropriations

There are essentially two types of expenditures: voted and statutory. Within the statutory category there are two further divisions: Special Accounts and Funds, and other statutory authorities. Examples of this last type include fire suppression, emergency relief, MLAs' indemnities and salaries.

In the Estimates presentation all of this latter category of statutory expenditure is included within voted expenditure. As a result, British Columbia is alone among provinces in voting 95 percent of our annual expenditure. Ontario votes 87 per cent, Manitoba 92 per cent and the federal government only 35 per cent.

The remaining 5 per cent of expenditure consists of Special Accounts and Funds. These expenditures are multi-year appropriations which do not lapse at the end of a fiscal year. The total amount that can be spent out of an account or fund, however, has been determined by the Legislature with specific legislation. As a result, the Legislature has full opportunity to debate or limit these expenditures when the specific legislation is introduced or to subsequently place further limits on these expenditures through government or private members' bills amending this legislation.

The Estimates clearly shows all statutory expenditure for the current year under each Special Account and Fund and the remaining statutory spending authority within the balance of the Account or Fund. The Legislature is free to debate these Accounts and Funds with reference to the ministries' voted expenditures during Committee of Supply.

E.2 Recoveries — Authority to Spend Estimated Amounts

P. 21
3.10–3.16

Programs are developed on the basis of gross expenditure. As the government is committed to delivering the program the gross amount of expenditure shown may have to be spent regardless of whether recoveries are actually received or not. An example is the contributions to non-residential school property tax. Recoveries exist as these revenues are legally earmarked for grants to school districts, however, if the amount of revenue shown is not achieved, the total schools' program must still proceed for the committed amount. It is agreed that this treatment requires clarification, and a note will be considered which clearly states that authority is being requested to spend both the net amount of the vote plus the recovery shown whether or not it is actually realized. It is the government's opinion that section 20 (3) of the *Financial Administration Act* clearly specifies the legal authority to spend the net amount voted plus the recovery, and that a note in the Estimates will clarify the issue.

E.3 Borrowing Authorization

P. 23
3.17–3.25

All Orders-in-Council (OIC), unless specifically referring to another, are "stand alone" documents. Where an OIC authorizes the Minister of Finance or a corporation to borrow "an outstanding amount not to exceed the equivalent of (a specified dollar figure)", the OIC is providing the authority to borrow funds up to and including that same amount.

Legal counsel advises that the *Financial Administration Act* refers to the proceeds of a borrowing rather than the face value of the securities issued. Nonetheless, in order to avoid any confusion in this regard the Ministry of Finance will undertake in the future to seek inclusion in any authorizing Order-in-Council the borrowing amount (proceeds) authorized, and, if substantially different, the maximum par value of the debt to be issued.

Section, Subsection	Auditor General's Reference (1986 Report)

E.4 Contingencies Vote

P. 24
3.26–3.33

The Ministry of Finance recognizes the need to ensure that expenditures charged to the contingencies vote are consistent with the vote description. Potential charges are carefully reviewed in terms of consistency with the vote and alternative funding options. It is considered that the vote description provides the required latitude to fund contingent, unexpected and/or unanticipated developments.

With regard to the Auditor General's concerns, the B.C. Buildings Corporation debt servicing grant is no longer paid from the Contingencies Vote. Payment is now provided in the 1986/87 Estimates through a separate sub-vote in the Management of the Public Debt Vote.

It is considered that the charges for telecommunication costs and lease capitalization represents a legitimate expenditure out of the contingency vote.

While it is agreed that $4.5 million in lease capitalization costs should have been anticipated, they were not provided for in the 1984/85 Estimates. Similarly, $0.8 million in telecommunication costs were also not provided for. This situation is partly explained by the fact that 1984/85 was the first year of full chargebacks for telecommunications services, and due to the unexpected nature of these costs and the switch to the $10 Telecommunications Vote, a charge to the contingency vote was considered appropriate.

E.5 Senior Financial Officer Bank Accounts

P. 26
3.34–3.38

The introduction of Senior Financial Officer bank accounts was part of the decentralized payment process already established in government, and was an efficiency measure and an effort to provide better overall service to business. Examples of the large payments handled through the decentralized payment process include Ministry of Human Resources Income Assistance cheques and Government Agents, totalling $1.021 billion in 1985/86.

Senior Financial Officer bank accounts are considered an important adjunct to the central payment process. 31,573 cheques for a total value of $4.2 million and an average amount of $133.84 were disbursed through these bank accounts in 1985/86. Control procedures are well documented in central financial manuals, and the accounts are established using the strict guidelines and procedures in effect for all ministry bank accounts.

The direction that Senior Financial Officer bank accounts take in future is contingent on the electronic data processing changes which occur centrally. It is possible that technological improvements in the central payment process may make these accounts obsolete. Recommendations respecting the treatment of the accounts as government bank accounts in the central accounting system will be investigated during 1986/87.

E.6 Banking Practices for Trust Funds

P. 31
3.50–3.54

The *Financial Administration Act* states in Section 10 that trust funds "shall be paid into and maintained in accounts kept in the Ministry of Finance separate from the Consolidated Revenue Fund". The Ministry of Finance has and will continue to keep trust funds recorded in accounts separate from the Consolidated Revenue Fund. It is, therefore, considered that the *Financial Administration Act* is being complied with and that the beneficiaries of the trusts suffer no greater risk of loss through this treatment.

Section, Subsection	Auditor General's Reference (1986 Report)

E.7 Public Trustee — Ministry of Attorney General

Cash Management

The control procedures for handling cash receipts and disbursements have been amended, resulting in more efficient handling of cash. Deposits of cash are more timely, and reconciliation procedures and payment authorizations have improved. **P. 32 3.57**

Asset Control

It is the policy of the Office of the Public Trustee to record all trust assets and liabilities in a consistent manner as soon as they are identified. Errors are identified by Public Trustee internal audit and by external audit. The Public Trustee has taken corrective action on the Auditor General's findings, recording the nature of the assets as they move from cash to investment. **P. 32 3.58**

Valuation of Assets

As indicated above, all identified assets are recorded by the Public Trustee at the first possible opportunity for control purposes. Actual or appraised values are determined after initial valuation. All real properties are now valued at appraised or assessed value with the exception of a few properties for new clients which are in the process of being appraised. All securities held at current value were audited by the Public Trustee in 1985, and the Office of the Public Trustee has been in the process of auditing all physical assets against recorded assets. When it is determined the physical inventory does not agree with computer records, the Office of the Public Trustee makes the appropriate adjustments. **P. 32 3.59**

Investigative Teams

The dual investigation concept is to have two persons receive and record trust assets as it would be more difficult for two people to misappropriate or overlook assets than it would be for one person. The Public Trustee provides dual investigation in all necessary situations. Procedures have now been changed to have both investigators involved in a dual investigation sign the asset survey form. In some cases in the past, two people actually received and recorded the assets but only one person signed the asset survey form. **P. 33 3.60**

Financial Records

Methods of controlling and reporting of trust assets and liabilities will be reviewed during 1986/87, including the Auditor General's suggestion with respect to double entry bookkeeping. Current practice involves preparation by the Public Trustee of a summary of accounts showing all trust assets and liabilities. This summary is provided monthly to the Office of the Comptroller General. Individual trust accounts are supported by subsidiary asset and liability ledgers. Automatic balancing of transactions through the trust accounts takes place each month. **P. 33 3.61**

Legislation

The necessity for the provision in the *Public Trustee Act* for the Public Trustee to file an affidavit every six months showing all sums received and costs recovered is being reviewed. With respect to the requirement under the *Estate Administration Act* for the Comptroller General to audit the accounts of estates, this requirement was removed when Section 50 of the Act was amended July 11, 1985 (Bill 42), and responsibility has now been given to the Attorney General. In addition, other legislation (*Patients' Property Act, Infants Act, Trustee Act*) pertaining to the Office of the Public Trustee is being reviewed. **P. 33 3.62**

Section, Subsection	Auditor General's Reference (1986 Report)

E.8 Land Title Search Fees — Ministry of Attorney General

The Ministry of Attorney General has implemented accountants' recommendations, and the systems now in place will result in meeting revenue management objectives of the Land Title Office in an efficient manner. Creation of security desks, implementation of a debit card system, and specific invoicing and cashier procedures are among the significant improvements.

E.9 Civil Legal Aid Cost Sharing Claims

P. 35
3.70–3.73

The claim for 1983/84 has been presented to the Federal Government and is currently under review. Claims for 1984/85 will be presented after settlement has been reached on the 1983/84 claim, and it should then be possible to negotiate prior year claims, potentially back to 1978.

E.10 Accounts Receivable and Debt Collection — Ministry of Forests

P. 36
3.74–3.78

The Ministry of Forests is assessing its practices with a view to developing and implementing new methods and systems required for operating in a changing economic environment.

An amendment to the *Forest Act*, Section 88 is under consideration. The amendment would allow Section 88 credits to set-off revenue classifications other than stumpage payable. This would alleviate credit buildup in the accounts receivable. Accounts receivable staff would be available for increased collection and monitoring purposes as a result of streamlining the system.

An amendment to the *Forest Act*, Section 142 is under consideration. The amendment would eliminate the need to pursue both the licensee and the purchaser of the timber for unpaid stumpage. This would enable concentration of collection effort upon a single debtor and would simplify the accounts receivable system.

In March, 1986, the Ministry began participating in a government-wide accounts receivable set-off program, coordinated through the Office of the Comptroller General. Initial results show potential for collecting troublesome accounts.

A Credit Management Program is being developed, which involves the establishment and monitoring of credit limits for individual accounts. The program is expected to be implemented by August, 1986.

The Ministry has concluded agreements with industry members experiencing financial difficulty. The agreements entail retirement of debts to the Ministry through a formal payment schedule. The payment schedules will allow industry members to maintain operations, while permitting the Ministry to recover debts.

Collection procedures are being revised to facilitate timely response to collection problems. The Ministry is considering increased staff emphasis on the collection process.

An Operational Systems Review of the Accounts Receivable System commenced in May, 1986. The review will determine improvements needed to simplify day-to-day maintenance of accounts receivable.

Increased use of suspending cutting rights under licenses at earlier periods in the collection cycle is being implemented during 1986/87.

E FINANCIAL AND LEGISLATIVE CONTROLS

Section, Subsection	Auditor General's Reference (1986 Report)

E.11 Treasury Board Approvals — Ministry of Health

P. 37
3.79–3.82

The Ministry obtained approval from Treasury Board when the Section 22 accounts in question were first established. Approvals were not obtained at the beginning of each subsequent fiscal year with respect to multi-year agreements. Treasury Board approval has been obtained for all Section 22 accounts in the 1985/86 fiscal year and a Treasury Board Submission has been prepared for the 1986/87 fiscal year.

It is recognized that for the 1984/85 fiscal year the Ministry did not obtain the required approvals for discretionary grants for Hospital Program equipment grants. This problem was eliminated in 1985/86 and 1986/87 fiscal years by ensuring the grant payments were included in the pre-approvals provided by Treasury Board at the beginning of the fiscal year.

E.12 Restructure Grants

P. 38
3.83–3.87

The issue relates to the responsibility transferred from the Ministry of Attorney General in 1982 for provision of policing grants to two municipalities. The Letters Patent of these municipalities exempt them from providing police services to non-urban areas within their boundaries. The payment of a grant, rather than provision of direct policing services, is the most administratively convenient way for the province to ensure these services are provided. The Ministry recognizes the need to examine the statutory authority for provision of these grants and is in the process of reviewing alternatives.

E.13 Administration of the B.C. Games

P. 38
3.88–3.90

Improvements in expenditure controls recommended by the firm of chartered accountants hired by the Ministry to review the financial administration of the B.C. Games are in the process of implementation. These guidelines and procedures will establish a level of control over expenditures which meets government requirements and the Auditor General's concerns respecting validation and justification of expenditures.

E.14 Telephone Equipment Leasing Overcharges

P. 39
3.91–3.93

The Telecommunications Branch of the Ministry of International Trade, Science and Investment (formerly Universities, Science and Communication) has conducted a study regarding this issue and is presently documenting a policy which incorporates the recommendation. It is expected that a policy will be implemented during 1986/87.

Section, Subsection	Auditor General's Reference (1986 Report)

F. STATUS OF FINDINGS IN PREVIOUS REPORTS OF THE AUDITOR GENERAL

F.1 Financial Statements

F.1.1 Financial Statement Presentation

There continues to be support from legislators for retaining the Combined Statements as the government's main financial statements. This matter may require reconsideration when the relevant CICA standards for government financial reporting are developed in full.

P. 46 2.6 (1985)

The utility of these high level statements was discussed with members of the Select Standing Committee on Public Accounts and Economic Affairs in 1984. The Committee considered them to be of value. Consideration is being given to moving the schedules to a separate, high level digest of the Public Accounts.

P. 46 2.9 (1985)

F.2 Government Accounting Policies

F.2.1 Dispositions, Long-Term Bond Investments

The policy regarding deferral and amortization of pension fund investments was criticized by the Auditor General as inappropriate because of the broad scope of the application and the extended amortization periods permitted. This method of deferral and amortization is applied only to pension funds in Trust Funds Under Administration, and the government considers that this is a fair way of allocating income or losses over succeeding years when long-term securities are traded to improve a Fund's performance. Prudence will continue to be exercised in application of this deferral and amortization method. The Canadian Institute of Chartered Accountants has recently revised recommendations concerning pension asset valuation, and the government's current practice will be reviewed in light of these recommendations.

P. 48 1.11 (1983)

F.2.2 Recoveries

The development of a recoveries policy is progressing under Treasury Board Staff leadership with assistance from the Office of the Comptroller General.

P. 49 3.15 (1985)

F.3 Financial Control

F.3.1 Monitoring Reallocation of Funds

Every working day, the Office of the Comptroller General receives a vote control report indicating current expenditure by ministry and vote as a percentage of the established figure. Vouchers passed for payments against votes 100% expended are automatically stopped by the computer before cheques are produced. These vouchers are held or returned to the ministry Senior Financial Officer, with an indication that they may be re-submitted when funds become available.

P. 51 4.10 (1985)

A system was implemented last year to monitor transfers between sub-votes. Expenditure above the budgeted sub-vote amount is noted and the ministry contacted to determine the nature of the transfer.

F.3.2 Administration of Trust Assets

The *Financial Administration Act* states in Section 10 that trust funds shall be paid into and maintained in accounts kept in the Ministry of Finance separately from the Consolidated Revenue Fund. This practice will continue.

P. 52 4.17 (1985)

Section, Subsection	Auditor General's Reference (1986 Report)

F.3.3 Ministry of Provincial Secretary and Government Services

Government Personnel Services Division is addressing these issues in the design of the new Personnel Management Information System. A representative of the Office of the Comptroller General is a member of the Steering Committee.	**P. 54 3.16 (1982)**

Section, Subsection	Auditor General's Reference (1986 Report)

G. COMPREHENSIVE AND SPECIAL AUDITS

G.1 Passenger Vehicle Travel

P. 73
5.51–5.60

The Ministry of Provincial Secretary and Government Services is in agreement that vehicle inventory cost and usage information is crucial to effective fleet management. The system developed and operated by Vehicle Management Services will provide this information. This system will be made available to ministries operating separate vehicle fleets, at their request.

The government fleet is old and expensive to maintain. The province is developing a new vehicle replacement strategy. Government accounting policy of expensing vehicles in the year of purchase has contributed to long retention of vehicles, and the new replacement strategy will address this issue.

Presently a significant portion of employees use their private vehicles for government transportation with compensation based on distance travelled. This arrangement can easily be administered. There is evidence to indicate benefits of stratification would be exceeded by administrative cost, and compensation formulae should only be varied if necessary. Existing disincentives to the use of private vehicles are being investigated.

The portal-to-portal operation of government vehicles is presently controlled by policy to restrict indiscriminate use of vehicles. It is noted the reported use of vehicles under this classification falls within the policy guidelines.

G.2 Ministry of Lands, Parks and Housing

G.2.1 Crown Land Administration

P. 79
6.9–6.22

While a comprehensive inventory including all Crown lands would be useful, it would only partially assist in serving the needs of ministry clients and the high cost would not be warranted. However, as the Auditor General notes, the Ministry continues to satisfactorily develop computerized systems which will provide the most important inventory data and this will be expanded over time.

P. 83
6.23–6.28

The Ministry has government direction to dispose of lands within its mandate by sale, lease or licence at market value. Where there are variations or clarifications required, the Ministry has sought and received specific guidance from Cabinet.

P. 85
6.29–6.49

The complexities surrounding this disposition of Crown land make development of a simple set of policies to cover all programs, and a reporting system, virtually impossible. However, the Ministry will review the possibility of preparing a comprehensive statement endorsed by government respecting Crown land disposition policies, and has embarked upon a program to simplify its policies. The Ministry is satisfied that these policies are being applied in a reasonably consistent fashion across the Province.

G.2.2 Crown Land Special Account

P. 89
6.50–6.62

While concluding that legislative compliance and control at the Ministry level is adequate, the Auditor General's report also concludes that the Legislative Assembly does not restrict use of the Account to activities and programs which are specific enough to constitute effective control. The Ministry has sought further guidance on this issue and during 1985 proposed a restructuring of the

Section, Subsection	Auditor General's Reference (1986 Report)

Ministry's vote structure and the Crown Land Account so that the Account would be used primarily to fund acquisitions and servicing or development of Crown lands, and to account for related recoveries and revenues from sale and leases of Crown lands. Treasury Board approved the proposal, effective for the 1986/87 fiscal year.

The Ministry disagrees with the Auditor General's recommendation that the Crown Land Account be eliminated entirely. To achieve its mandate, it is important that the Ministry have the ability to enter into multi-year project and land acquisition commitments, to be able to react quickly to the sudden changes which occur in the housing market and to recognize the basic accounting principle of matching costs and revenues directly relating to a given program or project in order to objectively measure financial performance.

G.2.3 Computerization

The Ministry is pleased with the Auditor General's recognition of their effective systems development program, and seek to be progressive in computerization to meet government's direction for increased productivity while consuming fewer FTEs and dollars. **P. 93 6.63–6.66**

The Ministry disagrees with the Auditor General's conclusion, "that the Ministry Executive did not exercise sufficient financial control over the project". The "project" is the Ministry's entire three-year systems plan incorporating a considerable number of individual systems "projects". Financial controls are and continue to be maintained over the plan and its individual component projects.

Ministry executive made its hardware and operating software acquisition decision with full knowledge that, while the resulting cost would be more than other alternatives, the best value was obtained which effectively meets the Ministry's needs. Ministry executive is confident that the decision was best in terms of effectiveness, compatibility and capacity of the product to meet Ministry needs. **P. 94 6.67–6.92**

G.2.4 Social Housing

The Ministry is pleased with its long and successful history of providing social housing alternatives to senior citizens and disabled persons without committing the Province to unnecessarily increasing subsidy costs, and would welcome coordinative mechanisms in government for better identifying and funding housing and related support needs for senior and disabled persons. The current Ministry Housing Program is being acclaimed by other government jurisdictions as excellent. **P. 99 6.93–6.128**

G.2.5 Parks and Outdoor Recreation

The Ministry is pleased that the Auditor General has recognized the Parks and Outdoor Recreation Division accomplishments in regard to its economy and efficiency, park planning process, visitor service orientation, organization and staffing and its operational planning process. As these accomplishments are viewed by the Ministry as being key success factors for provincial park management, the independently reported observations are appreciated. **P. 108 6.129–6.136**

Given its particular mandate, the Parks and Outdoor Recreation Division is appropriately a separate organizational entity within the Ministry. It is the Ministry's view, however, that good and effective relationships have been developed by this Division with other organization units, both within the Ministry and within the Provincial Government at large. **P. 110 6.137–6.138**

Section, Subsection	Auditor General's Reference (1986 Report)

The Ministry agrees with the Auditor General's observations that improved performance indicators and supporting performance reports would be helpful to the management of the Parks and Outdoor Recreation Division. Work has already commenced to improve both the forecasting and reporting systems. **P. 111 6.139–6.145**

The Ministry takes a different view from that of the Auditor General in regard to the success of private sector contracting. The Ministry has commissioned two separate reviews on this issue, one of which was conducted independently from the Ministry, while the second review involved division managers and the Ministry's internal auditor. Both reviews have come to the conclusion that private sector contracting has been clearly more efficient with no appreciable loss in service to the public. **P. 112 6.146–6.153**

G.2.6 Financial Management and Control

Lands, Parks and Housing not only seriously endeavors to recognize and assume all appropriate financial management and control responsibilities, but actively seeks further responsibilities and authorities in order to better manage, control and serve our clients. The Ministry seeks to be progressive in automated systems, while recognizing the risks inherent in this. Audit scrutiny is welcomed and the Ministry commits itself to being held fully accountable.

The Ministry is pleased that the Auditor General has recognized these efforts and the improvements since the Auditor General's 1980 review, realizing that the Ministry of Lands, Parks and Housing will continue to move toward achieving a truly comprehensive system of financial management.

G.3 Professional Service Contract Review

G.3.1 Professional Service Contracts

Government Management Policy was revised in August of 1985 by redefining total potential cost of service contracts. This policy was revised to eliminate what could be viewed as a "loophole", by requiring Treasury Board approval if the total cost of all contracts issued to the same individual, group or organization for a similar purpose exceeded $50,000 over a 12-month period. **P. 123 7.1–7.20**

G.3.2 Employer/Employee Relationships

The government uses the word "should" as opposed to "shall" because there is a need to maintain flexibility in the definition of employer/employee relationships. There are differing definitions of employee in the common law, Labour Relations Board rulings and various Provincial Statutes (e.g. *Public Service Act, Workers Compensation Act, Public Sector Benefit Plan Act*); Revenue Canada, *Canada Pension Plan Act*, and the *Unemployment Insurance Act*. As an individual may be an employee under some statutes but not others, a firm policy is not feasible. **P. 128 7.22–7.23**

The Internal Audit Division, Office of the Comptroller General includes review of service contracts in the scope of audit plans and brings questionable contracts respecting employer/employee relationships to the attention of Treasury Board Staff, who direct ministries accordingly.

G.3.3 Conflict of Interest/Tendering

Government Personnel Services Division, Ministry of Provincial Secretary and Government Services, has drafted a Standards of Conduct Directive which it will recommend be issued upon proclamation of the *Public Service Act*. It states that "no conflict should exist or appear to exist **P. 129 7.24–7.26**

Section, Subsection	Auditor General's Reference (1986 Report)

between the private interests of employees and the discharge of their public service duties. Upon appointment to office, employees shall arrange their private affairs in a manner that will prevent any conflicts of interest from arising."

The contracts administration policy, currently under development and scheduled for submission in 1986, will make reference to existing conflict of interest guidelines.

Section, Subsection	Auditor General's Reference (1986 Report)

H. PUBLIC BODIES

H.1 Public Body Financial Information

P. 138 8.12–8.15

The Auditor General is correct in point 8.14 that there is a lack of consistency in the financial information available regarding public bodies, however it should be pointed out that under the *Auditor General Act*, any public body receiving public funds through grants, advances, loans or borrowings guaranteed by the Crown may be subject to examination by the Auditor General.

Proclamation of the *Financial Information Act* is scheduled for 1986.

I. PROGRESS INDEX

Issue	Auditor General's 1986 Report Reference Paragraph	Page	Status
C. FINANCIAL STATEMENTS			
C.1 Accrued Liabilities	**1.9-1.13**	**8**	See Comments
C.2 Fiscal Agency Loans Fund Disclosure	**1.14-1.18**	**9**	See Comments
C.3 Sinking Funds	**1.23-1.30**	**12**	Under Consideration
C.4 Trust Funds Classification	**1.31-1.36**	**14**	See Comments
C.5 Status of the WCB Superannuation Fund	**1.37-1.40**	**15**	Action Being Taken
D. GOVERNMENT ACCOUNTING POLICIES			
D.1 Capital Financing Authorities	**2.4-2.6**	**17**	Resolved
D.2 Recoveries	**2.7-2.10**	**18**	Action Being Taken
D.3 Lease Payment Accounting Policy	**2.11-2.15**	**19**	Under Consideration
E. FINANCIAL AND LEGISLATIVE CONTROLS			
E.1 Statutory Appropriations	**3.4-3.9**	**20**	Under Consideration
E.2 Recoveries — Authority to Spend Estimated Amounts	**3.10-3.16**	**21**	Under Consideration
E.3 Borrowing Authorization	**3.17-3.25**	**23**	Action Being Taken
E.4 Contingencies Vote	**3.26-3.33**	**24**	See Comments
E.5 Senior Financial Officer Bank Accounts	**3.34-3.38**	**26**	See Comments
E.6 Banking Practices for Trust Funds	**3.50-3.54**	**31**	See Comments
E.7 Public Trustee	**3.55-3.64**	**32**	Action Being Taken/ See Comments
E.8 Land Title Search Fees	**3.65-3.69**	**34**	Action Being Taken
E.9 Civil Legal Aid Cost Sharing Claims	**3.70-3.73**	**35**	Action Being Taken
E.10 Accounts Receivable and Debt Collection	**3.74-3.78**	**36**	Action Being Taken
E.11 Treasury Board Approvals, Ministry of Health	**3.79-3.82**	**37**	Resolved
E.12 Restructure Grants	**3.83-3.87**	**38**	Under Consideration
E.13 Administration of the B.C. Games	**3.88-3.90**	**38**	Action Being Taken
E.14 Telephone Equipment Leasing Overcharges	**3.91-3.93**	**39**	Action Being Taken
F. STATUS OF FINDINGS IN PREVIOUS REPORTS OF THE AUDITOR GENERAL			
F.1 Financial Statements			
F.1.1 Financial Statement Presentation	**2.6-2.9**	**46**	Under Consideration
F.2 Government Accounting Policies			
F.2.1 Dispositions, Long-Term Bond Investments	**1.11**	**48**	Under Consideration
F.2.2 Recoveries	**3.15**	**49**	See D.2
F.3 Financial Controls			
F.3.1 Monitoring Reallocation of Funds	**4.10**	**51**	Action Being Taken
F.3.2 Administration of Trust Assets	**4.17**	**52**	See E.6
F.3.3 Ministry of Provincial Secretary and Government Services	**3.16**	**54**	Action Being Taken
G. COMPREHENSIVE AND SPECIAL AUDITS			
G.1 Passenger Vehicle Travel	**5.51-5.60**	**73**	Action Being Taken
G.2 Ministry of Lands, Parks and Housing			
G.2.1 Crown Land Administration	**6.9-6.49**	**79**	Under Consideration
G.2.2 Crown Land Special Purpose Account	**6.50-6.62**	**89**	Disputed
G.2.3 Computerization	**6.63-6.92**	**93**	Disputed
G.2.4 Social Housing	**6.93-6.128**	**99**	See Comments
G.2.5 Parks and Outdoor Recreation	**6.129-6.153**	**108**	Action Being Taken
G.2.6 Financial Management and Control	**6.154-6.167**	**114**	Action Being Taken

I. PROGRESS INDEX

Issue	Auditor General's 1986 Report Reference Paragraph	Page	Status
G.3 Professional Service Contract Review			
G.3.1 Professional Service Contracts	**7.1-7.20**	**123**	Action Being Taken
G.3.2 Employer/Employee Relationships	**7.22-7.23**	**128**	See Comments
G 3.3 Conflict of Interest	**7.24-7.26**	**129**	Action Being Taken
H. PUBLIC BODIES			
H.1 Public Body Financial Information	**8.12-8.15**	**138**	Action Being Taken

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